

**Texas State Technical College
3801 Campus Drive
Waco, Texas**

**National Science Foundation Award Number
DUE-9553716**

**Independent Auditors' Reports
and
Financial Schedules**

For the Period September 1, 1995 to August 31, 1999

**Leon Snead & Company, P.C.
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**Texas State Technical College
3801 Campus Drive
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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

BACKGROUND

Texas State Technical College (TSTC) is an agency of the State of Texas located in Waco, Texas. TSTC follows the cost principles specified in Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions* and the Federal administrative requirements contained in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. A description of the NSF award audited follows:

Award DUE-9553716

On June 22, 1995, the National Science Foundation (NSF) granted TSTC an award to support a multi-state effort to develop curricula and laboratory materials for student learning in advanced skill technologies. The curricula included fifteen occupational areas supporting the American Machining and Machine Tool Industries. Under this agreement, NSF awarded TSTC \$1,550,000 and TSTC agreed to cost sharing of \$5,758,278 from September 1, 1995 to August 31, 1999. TSTC claimed \$1,530,600 of NSF funding and did not claim any cost sharing.

AUDIT OBJECTIVES, SCOPE, & METHODOLOGY

We have performed an audit of the award issued by the NSF to the TSTC for the period September 1, 1995 to August 31, 1999. A summary of the audit results of this award are in Schedule A - Schedule of Award Costs, and Schedule C - Summary Schedules of Award Audited and Audit Results.

The objectives of our audit were to determine whether:

1. Costs charged to the NSF award by TSTC are allowable, allocable, and reasonable, in accordance with the applicable Federal cost principles and NSF award terms and conditions; and

2. TSTC's systems of internal controls are adequate to properly administer, account for, and monitor its NSF award in compliance with NSF and Federal requirements.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States of America, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards, and the *National Science Foundation Audit Guide*, required that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed to the National Science Foundation as presented in the Schedule of Award Costs (Schedule A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Schedule A. An audit also includes assessing the accounting principles used and significant estimates made by the TSTC, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

SUMMARY OF AUDIT RESULTS

An audit was performed of the financial reports submitted to NSF as well as the cost sharing provided by TSTC on the NSF award audited. These costs are shown in Schedule A and are summarized as follows:

<u>Award No.</u>	<u>Source of Funding</u>	<u>Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>
DUE-9553716	NSF Funding	\$1,550,000	\$1,530,600	\$ -
	Cost Sharing	<u>5,758,278</u>	<u>-</u>	<u>1,209,174</u>
	Total Project	<u>\$7,308,278</u>	<u>\$1,530,600</u>	<u>\$1,209,174</u>

The costs claimed by TSTC for the award expenditures were generally allowable, allocable, and reasonable, in accordance with the applicable Federal cost principles and NSF award terms and conditions. However, \$1,209,174 of the claimed costs were questioned because TSTC did not meet its cost-sharing obligation. NSF funded \$1,550,000 (21 percent) of the total budgeted project costs of \$7,308,278, and TSTC was to cost share the remaining \$5,758,278 (79 percent). TSTC did not comply with the award condition to provide cost-sharing funds in support of the project. However, TSTC claimed costs of \$1,530,600 to NSF. Because of TSTC's failure to provide its cost sharing of \$5,758,278, we questioned \$1,209,174 (79 percent of \$1,530,600) of the claimed costs to NSF. See Schedule B for the calculation of questioned cost. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by the National Science Foundation – Division of Acquisition and Cost Support (DACS).

We used nonstatistical sampling to test the costs claimed by TSTC to test for compliance with Federal and NSF award requirements. Based on this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been

tested. In addition, we made no attempt to project such costs to total costs claimed, based on the relationship of costs tested to total costs.

In general, TSTC's systems of internal controls were adequate to properly administer, account for, and monitor its NSF award in compliance with NSF and Federal requirements, except in the areas related to cost sharing, subawardee monitoring, and activity reports. Specifically, TSTC did not have procedures in place to ensure that required cost sharing is met, recorded in the accounting system, adequately documented, and reported to NSF. We believe that TSTC's failure to meet its cost-sharing obligation is a material internal control weakness because the required cost sharing represented 79 percent of the total project costs. In addition, TSTC did not adequately monitor its subawardees and the costs claimed by the subawardees, which represented 70 percent of the total costs claimed to NSF, and properly certify its after-the-fact activity reports.

The following is a brief description of the compliance and internal control findings that resulted from our audit. For a complete discussion of these findings, refer to the *Independent Auditors' Report on Compliance with Laws and Regulations and Internal Controls*.

COMPLIANCE FINDING:

Activity Reports

TSTC's after-the-fact activity reports supporting \$240,920 in claimed salaries and wages, and related fringe benefits were certified annually rather than semiannually because TSTC was not sufficiently familiar with the Federal requirements. This reduces TSTC's ability to provide assurance that salary and wages, and the related fringe benefits charged to NSF awards are allocable, allowable, and reasonable in accordance with Federal and NSF requirements.

INTERNAL CONTROL FINDINGS:

Cost Sharing

TSTC did not have policies and procedures in place to ensure that required cost sharing is met, recorded in the accounting system, adequately documented, and reported to NSF. If TSTC's promised cost sharing is not realized, then budgeted project costs may have been significantly greater than the funds the awardee actually needed. Therefore, NSF could have funded additional projects.

Subawardee Monitoring

TSTC did not adequately monitor its subawardees. Specifically, TSTC did not obtain and review its subawardees' OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* audit reports. Additionally, TSTC did not review one of five subawardees' supporting documents for its claimed costs because TSTC was not familiar with the Federal requirements. By not reviewing its subawardees' OMB Circular A-133 audit reports and not always reviewing subawardees' supporting documentation for claimed costs, TSTC reduces its

ability to efficiently and effectively manage and monitor expenditures of subawardees charged to the NSF award.

**SUMMARY OF RECOMMENDATIONS
AND AWARDEE'S RESPONSES TO THE AUDIT RESULTS:**

To address the compliance finding, we recommend that NSF's Directors of DACS and the Division of Grants and Agreements (DGA) ensure that TSTC prepare and certify activity reports for professorial and professional staff each academic term, but not less than every six months. To address the internal control findings, we recommend that NSF's Directors of DACS and DGA ensure that TSTC (a) review the requirements of OMB Circular A-110 and NSF Grant Policy Manual (GPM), (b) develop and implement cost-sharing policies and procedures to ensure that the required cost sharing for this and any future awards is met, (c) adequately document and record cost sharing in its accounting system, (d) submit its required annual cost-sharing certifications to NSF, (e) require its subawardees to have OMB Circular A-133 audits performed and submit the audit reports for TSTC's review, and (f) establish policies and procedures for monitoring subawardees to ensure its compliance with OMB Circular A-110 requirements. TSTC agreed with the findings and recommendations made in our report.

FOLLOW-UP ON PRIOR AUDIT FINDINGS:

There was no prior audit of NSF awards. TSTC's OMB Circular A-133 audits did not include this award as a major program.

EXIT CONFERENCE:

An exit conference was held on November 16, 2001, at TSTC's office in Waco, Texas. Findings and recommendations as well as other observations contained in this report were discussed with those attending. Representing TSTC were:

Name

Title

[REDACTED]

[REDACTED]

Representing Leon Sned & Company, P.C. was:

Name

Title

[REDACTED]

[REDACTED]

AUDIT FINDINGS AND RECOMMENDATIONS



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INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We were engaged to audit the costs claimed by the Texas State Technical College (TSTC) to the National Science Foundation (NSF) on the Federal Cash Transactions Report - Federal Share of Net Disbursements for the NSF award listed below. In addition, we have also audited the amount of cost sharing claimed on the award. The Federal Cash Transactions Report - Federal Share of Net Disbursements, as presented in the Schedule of Award Costs (Schedule A), are the responsibility of TSTC's management. Our responsibility is to express an opinion on Schedule A based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
DUE-9553716	09/01/95 - 08/31/99	09/01/95 - 08/31/99

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States of America, and the *National Science Foundation Audit Guide* (September 1996). These standards, and the *National Science Foundation Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by TSTC's management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial schedules were prepared in conformance with the requirements of the *National Science Foundation Audit Guide* as described in the Notes to the Financial Schedule, and are not intended to be a complete presentation of financial position in conformity with accounting principles generally accepted in the United States of America.

Schedule A presents costs of \$1,209,174 that are questioned as to their allowability under the award agreement. NSF will make the final determination about these findings. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF.

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the costs claimed on the Federal Cash Transactions Reports – Federal Share of Net Disbursements as presented in the Schedule of Award Costs (Schedule A), for the period September 1, 1995 to August 31, 1999 in conformity with the *National Science Foundation Audit Guide*, *NSF Grant Policy Manual*, terms and conditions of the NSF award and on the basis of accounting described in the Notes to the Financial Schedule.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2001, on our consideration of TSTC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, the provisions of the *National Science Foundation Audit Guide* and the awards applicable to TSTC. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of TSTC's management, the National Science Foundation, the Office of Management and Budget, and the Congress of the United States of America and is not intended to be and should not be used by anyone other than these specified parties.

Leon Snead & Company, P.C.
Rockville, Maryland 20850
November 16, 2001



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
LAWS AND REGULATIONS AND INTERNAL CONTROLS**

We have audited the Schedule of Award Costs as presented in Schedule A, which summarizes the financial reports submitted by Texas State Technical College (TSTC) to the National Science Foundation (NSF) for the award and period listed below and have issued our report thereon dated November 16, 2001.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
DUE-9553716	09/01/95 - 08/31/99	09/01/95 - 08/31/99

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States of America, and the *National Science Foundation Audit Guide* (September 1996). These standards, and the *National Science Foundation Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

COMPLIANCE

Compliance with applicable Federal laws, regulations, and the NSF award terms and conditions is the responsibility of TSTC's management. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of TSTC's compliance with certain provisions of laws, regulations, and the NSF award terms and conditions. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial schedule. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed three instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and the *National Science*

Foundation Audit Guide. One of these instances is discussed below. The remaining two instances concerning cost sharing and subawardee monitoring are also internal control weaknesses that are discussed in the Internal Control Over Financial Reporting section of this report in finding numbers 2 and 3, respectively. We considered these instances of noncompliance in forming our opinion of whether Schedule A presented fairly in all material respects, the cost claimed by TSTC on the Federal Cash Transactions Report – Federal Share of Net Disbursements for the period September 1, 1995 through August 31, 1999, in conformity with National Science Foundation policies and procedures, and determined that this report does not affect our report dated November 16, 2001, on the financial schedule.

Finding No. 1 — Activity Reporting

OMB Circular A-21, Subpart J, Section 8(c), 2(e) requires that after-the-fact activity reports for professorial and professional staff be prepared each academic term, but not less than every six months. TSTC's after-the-fact activity reports supporting \$240,920 in claimed salaries and wages and related fringe benefits were certified annually rather than semiannually because TSTC was not sufficiently familiar with the OMB Circular A-21 requirements. This reduces TSTC's ability to provide assurance that salaries and wages, and the related fringe benefits charged to NSF awards are allowable, allocable, and reasonable in accordance with OMB Circular A-21 requirements and the NSF award terms and conditions.

Recommendation No. 1

We recommend that NSF's Division Directors of DACS and DGA ensure that activity reports for professorial and professional staff be prepared and certified each academic term, but not less than every six months.

TSTC's Comments

The President of TSTC agreed with the recommendation and stated that corrective action has been taken. Also, he indicated that an Office of External Resource Development had been established and structured to provide the requisite oversight and monitoring.

Auditors' Response

TSTC's comments are responsive to the recommendation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of TSTC is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of a financial schedule in accordance with accounting principles prescribed by the

National Science Foundation. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Schedule of Award Costs - Schedule A for the period September 1, 1995 to August 31, 1999, we obtained an understanding of TSTC's internal control system over financial reporting. With respect to the internal control over financial reporting, we obtained an understanding of the design of relevant policies and procedures and whether the procedures have been placed in operation. Furthermore, we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on the internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control over financial reporting would not necessarily disclose all matters related to internal control over financial reporting that might be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data in a manner that is consistent with the assertions of management in the financial schedule. A material weakness is a reportable condition in which the design or operation of one or more of internal control elements does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

We noted the following matters involving TSTC's internal control over financial reporting and its operation. We consider the cost-sharing finding to be a material weakness and subawardee monitoring as a reportable condition under the standards established by American Institute of Certified Public Accountants.

Finding No. 2 — Cost Sharing

OMB Circular A-110, Subpart C, Paragraph .23(a) on cost sharing or matching requires that: "All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria. (1) Are verifiable from the recipient's records; (2) are not included as contributions for any other federally assisted project or program; (3) are necessary and reasonable for proper and efficient accomplishment of project or program objectives; (4) are allowable under the applicable cost principles; (5) are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching; (6) are provided for in the approved budget when required by the Federal awarding agency; and (7) conform to other provisions of this Circular, as applicable." Also, NSF GPM 333.6(a) requires grantees to

maintain records of costs that are claimed by the grantee as being its contribution to cost participation. NSF GPM 333.6 (b) states “Unless otherwise required by the grant instrument or requested by NSF, the actual cost participation by the grantee need not be reported to NSF. However, in cases where grantee cost sharing commitments are \$500,000 or more, the grant instrument will require as a condition of the grant, the Authorized Organizational Representative to report and certify the amount of cost sharing on an annual and cumulative basis. These cost sharing reports shall be included as part of the annual progress and final project reports.”

TSTC did not comply with its cost-sharing requirements for the NSF award because the awardee did not (1) record or claim any cost sharing, and (2) submit to NSF its required annual cost-sharing certifications. TSTC did not have policies and procedures in place to ensure that required cost sharing is met, recorded in the accounting system, adequately documented, and reported to NSF. The award conditions required TSTC to cost share in the amount of \$5,758,278 (\$1,919,426 per year for three years), which represents 79 percent of the total project costs. Since TSTC did not meet the cost-sharing requirements, we questioned \$1,209,174, which represents 79 percent of the total claimed costs of \$1,530,600. (For a detailed explanation and computation of the questioned costs, see Schedule B, Schedule of Questioned Costs.) If TSTC’s promised cost sharing is not realized, then budgeted project costs may have been significantly greater than the funds the awardee actually needed. Therefore, NSF could have funded additional projects.

Recommendation No. 2

We recommend that NSF’s Division Directors of DACS and DGA ensure that TSTC (a) review the requirements of OMB Circular A-110 and GPM, (b) develop and implement cost-sharing policies and procedures to ensure that the required cost sharing for this and any future awards is met, (c) adequately document and record cost sharing in its accounting system, and (d) submit its required annual cost-sharing certifications to NSF.

TSTC’s Comments

The President of TSTC agreed with the recommendation and stated that a corrective action plan has been developed that will include a process for reviewing existing policies and procedures and bringing forward new, more appropriately focused policies and procedures designed to provide the requisite internal controls for successful oversight of extramural funding. The issue of cost sharing is central to this process.

Auditors’ Response

TSTC’s comments are responsive to the recommendation.

Finding No. 3. — Subawardee Monitoring

OMB Circular A-110, Subpart C, Paragraph .51(a) on monitoring and reporting program performance, requires that: “Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in

Section .26.” This section on non-Federal audits in part states that recipients and subrecipients that are institutions of higher education or other non-profits shall be subject to the audit requirements contained in the Single Audit Act Amendments of 1996 and revised OMB Circular A-133.

TSTC claimed a total of \$1,068,114 of subaward costs, which represents 70 percent of the total \$1,530,600 cost claimed to NSF. TSTC did not obtain and review its subawardees’ OMB Circular A-133 audit reports. In addition, TSTC did not review one of five subawardees’ supporting documents, which represents approximately 22 percent of the subaward cost claimed on the NSF award. We verified that the costs claimed by the subawardee were supported by the source documentation that appeared to be allowable, allocable, and reasonable to the award. TSTC did not review OMB Circular A-133 audit reports, and monitor all subaward costs because it was not sufficiently aware of the requirements. Failure to review OMB Circular A-133 audit reports and obtain subawardees’ supporting documentation reduces TSTC’s ability to efficiently and effectively manage and monitor NSF-funded expenditures and activities by subawardees.

Recommendation No. 3:

We recommend that NSF’s Division Directors of DACS and DGA ensure that TSTC (1) require its subawardees to have OMB Circular A-133 audits performed and submit the audit reports for TSTC’s review, and (2) establish policies and procedures for monitoring subawardees to ensure its compliance with OMB Circular A-110 requirements.

TSTC’s Comments

The President of TSTC agreed with the recommendation and stated that all subsequent subawardees will be monitored.

Auditors’ Response

TSTC’s comments are responsive to the recommendation.

We considered these internal control weaknesses in forming our opinion of whether Schedule A is presented fairly in all material respects, in conformity with National Science Foundation policies and procedures, and determined that this report did not affect our report dated November 16, 2001 on the financial schedules.

This report is intended solely for the information and use of TSTC’s management, the National Science Foundation, the Office of Management and Budget, and the Congress of the United States and is not intended to be and should not be used by anyone other than these specified parties.

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Rockville, Maryland 20850
November 16, 2001

FINANCIAL SCHEDULES AND SUPPLEMENTAL INFORMATION

Schedule A

Texas State Technical College
National Science Foundation Award Number DUE-9553716
Schedule of Award Costs
From September 1, 1995 to August 31, 1999
Final

<u>Cost Category</u>	<u>Approved Budget</u>	<u>(A) Claimed Costs</u>	<u>Reclassi- fications</u>	<u>Claimed Costs After Reclassi- fications</u>	<u>Questioned Costs Amount</u>	<u>Schedule Reference</u>
Direct costs:						
Salaries and wages						
Fringe benefits						
Permanent equipment						
Travel						
Participant support Costs						
Other direct costs:						
Materials and Supplies						
Publications costs						
Consultant services						
Computer services						
Subawards						
Other						
Total direct costs						
Indirect costs						
Subtotal						
Costs claimed to NSF in excess of actual or Costs incurred in excess of claimed costs to NSF	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Total Costs	<u>\$1,550,000</u>	<u>\$1,530,600</u>	<u>\$ 0</u>	<u>\$1,530,600</u>	<u>\$ 0</u>	
TSTC Cost Sharing	<u>\$5,758,278</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$1,209,174</u>	B

(A) The total representing costs claimed agreed with the expenditures reported on the Federal Cash Transactions Report - Federal Share of Net Disbursements as of the quarter ended September 31, 1999. Claimed costs reported above are taken directly from TSTC's books of accounts.

See Schedule B and the accompanying notes to this financial schedule.

Schedule B

**Texas State Technical College
National Science Foundation Award Number DUE-9553716
Schedule of Questioned Costs
From September 1, 1995 to August 31, 1999**

Texas State Technical College Matching Share

OMB Circular A-110.23, Cost sharing or Matching, requires that all contributions for cost sharing be accepted when they are verifiable from the recipient's records. Also, NSF's GPM 333.6(a) requires grantees to maintain records of all its project cost which are claimed by the grantee as being its contribution to cost participation.

Per the award conditions, TSTC was required to cost share \$5,758,278 (\$1,919,426 per year for three years). TSTC did not have policies and procedures in place to ensure that required cost sharing is met, recorded in the accounting system, adequately documented, and reported to NSF. Since TSTC did not meet the cost-sharing requirements of the award, we questioned \$1,209,174, which represents 79 percent of the \$1,530,600 claimed costs to NSF.

Questioned cost sharing was calculated as follows:

Budgeted NSF Funding	\$1,550,000	21%
Plus: Budgeted TSTC Cost Sharing	<u>5,758,278</u>	79%
Total Program Budget	<u>\$7,308,278</u>	100%
Total Program Costs Incurred Per Books	\$1,530,600	
Allowable NSF Funding (21% of \$1,530,600)	\$ 321,426	
Costs Claimed by TSTC	\$1,530,600	
Less: Maximum Allowable NSF Funding	<u>(321,426)</u>	
Questioned Cost Sharing	<u>\$1,209,174</u>	

Texas State Technical College
Summary Schedules of Award Audited and Audit Results
From September 1, 1995 to August 31, 1999

Summary of Award Audited

Award Number	Award Period	Audit Period
DUE-9553716	09/01/95 – 08/31/99	09/01/95 – 08/31/99

Award Number	Type of Award	Award Description
DUE-9553716	Grant	To support a multi-State effort to develop curricula and laboratory materials for student learning in advanced skills technologies for fifteen occupational areas supporting the American machining and machine tool industries.

Summary of Questioned Costs by Award

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs
DUE-9553716	\$1,550,000	\$1,530,600	\$1,209,174

Summary of Questioned Cost by Explanation

Condition	Questioned Cost Amount	Internal Control Weaknesses	Non-Compliance
TSTC did not have policies and procedures in place to ensure that required cost sharing is met, recorded in the accounting system, adequately documented, and reported to NSF. Therefore, 79 percent of the \$1,530,600 costs claimed to NSF is questioned. Seventy-nine percent represents the percentage of total funding that TSTC was responsible for funding through cost sharing on this award.	\$1,209,174	Yes	Yes

Summary of Non-Compliance Issues and Internal Control Weaknesses

Condition	Non-compliance	Internal Control	Is Internal Control Weakness Material or Reportable?
TSTC did not have policies and procedures in place to ensure that required cost sharing is met, recorded in the accounting system, adequately documented, and reported to NSF.	Yes	Yes	Material
Subawardee monitoring was not adequately performed.	Yes	Yes	Reportable
Activity reports were not certified semiannually.	Yes	No	(Not Applicable)

Texas State Technical College
Notes to the Financial Schedules
From September 1, 1995 to August 31, 1999

Summary of Significant Accounting Policies:

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation instructions. Schedule A has been prepared from the reports submitted to the National Science Foundation. The basis of accounting used in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to the National Science Foundation. Therefore, the awardee did not maintain any equity in the award and any excess of cash received from the National Science Foundation over final expenditures is due back to the National Science Foundation.

B. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the statement of award costs include the cost of equipment purchased during the period rather than a provision for depreciation.

Except for awards with nonstandard terms and conditions, title to equipment under NSF awards vests in educational and non-profit recipients, for use in the project or program for which it was acquired, as long as it is needed. The recipient may not encumber the property without approval of the Federal awarding agency, but may use the equipment for its other Federally sponsored activities, when it is no longer needed for the original project.

C. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

Income Taxes:

Texas State Technical College is an agency of the State of Texas. Texas State Technical College is exempt from federal income taxes under the Internal Revenue Code. It is also exempt from Texas franchise or income tax.

**APPENDIX A – TEXAS STATE TECHNICAL COLLEGE'S
COMMENTS TO REPORT**



3801 CAMPUS DRIVE
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1-800-792-8784

[REDACTED]

February 19, 2002

[REDACTED]

Leon Snead & Company,
P.C. 416 Hungerford Drive,
Suite 400 Rockville,
Maryland 20850

Dear [REDACTED]:

Enclosed please find the response of Texas State Technical College Waco to the audit recently performed on National Science Foundation Award DUE 9553716. [REDACTED] conducted the audit, and [REDACTED] has been a continuous source of assistance as the response was drafted. We greatly appreciate [REDACTED] assistance.

Please contact me should you require additional information or documentation on anything contained in the response.

Sincerely,

[REDACTED]

Comments to Independent Auditors' Report Conducted for NSF Award DUE
9553716

Introduction

Dates of Award: 9/1/95 to 8/31/99
Audit Period: 9/1/95 to 8/31/99

Texas State Technical College Waco received the auditors' report from Leon Snead & Company, P.C. on January 22, 2002. During the actual audit, [REDACTED] auditor [REDACTED] worked closely with TSTC's [REDACTED] and [REDACTED]. Following the completion of the audit and upon receipt of the draft report, TSTC maintained close contact with the National Science Foundation's lead program directors Dr. Elizabeth J. Teles (DUE) and Dr. Gerhard L Salinger (ESIE) to insure accurate and useful preparation of a response to the findings. [REDACTED], Dr. Teles and Dr. Salinger were all most helpful, and regardless of outcome, the process has been invaluable in the fine tuning of corrective actions already underway. TSTC Waco is grateful to these individuals and the information and insight they have provided throughout the audit process. [REDACTED], [REDACTED] of Advanced Technology Centers at San Diego City College, provided additional history on the MASTER project (DUE 9553716).

All deliverables were completed, dissemination occurred and is ongoing, and direct costs were managed as prescribed in the grant proposal. Remaining project deliverables in print and CD format were forwarded to San Diego City College, where they were included in the ongoing MASTER dissemination effort.

Response to Schedule B: Schedule of Questioned Costs

Audit: "Texas State Technical College costs on the Federal Cash Transaction Report were \$1,530.600. However, \$1,205.978 of these costs were questioned because they represented costs reimbursed by the National Science foundation that were Texas State Technical College's share of the award" (Leon Snead & Company, P.C. / *Independent Auditors' Report* / Page 2).

TSTC Response: TSTC Waco has a large infrastructure of workfloors, lab environments and corporate partners that make it an extremely attractive grant-funding partner. From 1990 until 1999, projects were generated and funded through the U.S. Department of Education, the Texas Workforce Commission's Skills Development Fund, and the National Science Foundation (including the project under audit at this writing). However, inadequate internal control processes such as those highlighted in the audit led to some administrative changes, which began in 1999 and continue to the present. The first was the establishment of a Director of External Resource Development [REDACTED] to close down projects that were completed and institute new internal controls to insure compliance with Office of Management and Budget circulars as well as individual agency

requirements. This monitoring and oversight was not in place during the pre-award or award phases of the award being audited at present (MASTER/DUE 9553716). While the deliverables were completed, dissemination occurred and is ongoing, and direct costs were managed as prescribed in the grant proposal and award, less visible components of the awards such as cost-share were not administered as carefully. During the actual audit of DUE 9553716, TSTC employees [REDACTED] and [REDACTED] discussed this reality frankly and specifically with [REDACTED] Auditor [REDACTED].

At the time the MASTER proposal was drafted, the college had just completed a successful U.S. Department of Education project (MAST) involving the same partners. This earlier project laid the groundwork for the successful deliverables later completed in MASTER. These partners were all recognized as advanced technology centers receiving significant funding. Their experience in such projects led TSTC staff (none of which are currently employed at TSTC) to take them at their word relative to the value inherent in the equipment and facilities committed to the project. In a document prepared for distribution at partners' meetings entitled "MASTER Budget Summary," specific reference is made to the following: "Each college has a minimum of \$20 million in equipment that could be utilized as a part of this project. A very conservative estimate of \$228,571 of equipment instructional use per site is used in the budget" (MASTER Budget Summary, page 6). The actual proposal budget lists the equipment funds as well, and their locations at the various sites. Once the proposal was approved, TSTC staff assumed, perhaps incorrectly, that there was no problem with the cost share commitment.

Audit: The audit resulted in two specific findings, as described in the "Summary of Audit Results." These are a compliance finding, specifically that TSTC "did not meet the cost sharing requirements of the award resulting in questioned costs of \$1,205,978" and a comment on internal controls, specifically that TSTC "did not have procedures in place to ensure the establishment and maintenance of fiscal records to account for cost sharing and to ensure compliance with cost sharing requirements" (Independent Auditors' Report on Compliance, Leon Snead & Company P.C., Page 8). The auditor's recommendation in both instances is the same: "The grantee should design and place in operation procedures to establish and maintain fiscal records to account for cost sharing and to ensure compliance with cost sharing requirements" (Independent Auditors' Report on Compliance, Leon Snead & Company P.C., Page 9)

TSTC Response: As required by OMB Circular A-133 (as well as in its own interests for more accountable management of external funding), TSTC Waco provided all requisite information, working closely with [REDACTED] Auditor [REDACTED] [REDACTED] defined audit requirements and reviewed Circular A-133 with TSTC's [REDACTED] and [REDACTED]. The college made every effort to determine the organizations, agencies, departments and other entities that should be included in the process.

According to [REDACTED] (San Diego City College), additional cost share commitments are available based on the use of full time personnel at San Diego City College who field

tested modules during the entire life of the MASTER project. These cost share data were not included in the proposal because of the assumption that the equipment values approved in the proposal and referenced in the MASTER Budget Summary would be sufficient.

Corrective Action Plan

Contact Person Responsible for Corrective Action Plan: [REDACTED]
[REDACTED]

Corrective Action Planned

Corrective action is underway to address the findings of this audit. The guidance and input of Dr. Elizabeth Teles and Dr. Gerhard Salinger at the National Science Foundation, along with the advice of Mr. [REDACTED] at Leon Snead & Company, P.C., will be sought throughout the implementation of this corrective action plan. To insure compliance with all relevant OMB circulars and agency guidelines, TSTC established an office of External Resource Development in the Spring of 1999. This office, led by [REDACTED], is in the process of reviewing existing policy and procedures, and bringing forward new, more appropriately focused policies and procedures designed to provide the requisite internal controls for successful oversight of extramural funding. The issue of cost-share is central to these discussions. The following actions have already been taken at this writing:

- An oversight committee composed of TSTC faculty, procurement staff, and budget control staff has been established to review the circulars and provide insight into the development of appropriate policies and procedures;
- All expenditures of grant funds are routed through the Office of External Resource Development for monitoring of cost principles on currently active grants;
- Each active grant has been filed under a system created to correspond to the various requirements described in OMB A-110;
- A working document has been sent forward to the President, Deans, and Executive Assistant to the President from the Office of External Resource Development detailing various circulars and their potential impact on current policies and procedures;
- All invoicing and sub-award monitoring happens in the Office of External Resource Development for compliance review purposes.

The Corrective Action Plan will continue into the foreseeable future, as the committee continues to review OMB circulars and bring forward new or revised policies and procedures and to disseminate information about these activities to the campus community. Basic to the plan is the establishment of project oversight (monitoring and compliance review) in the Office of External Resource Development, which operates out of the Office of the President. Additional accounting records and budget controls will be

available to outside or internal auditors through the TSTC Waco Business Office, providing a system of checks and balances for direct and indirect costs.

TSTC Waco is establishing a framework to provide federal grant funding agencies the assurance that TSTC is managing federal awards in compliance with laws, regulations and provisions of contracts or grant agreements that could have a material effect on each of its federal programs, per OMB A-133.

Anticipated Completion Date: July 31, 2002.

The initial drafts of the new policies and procedures that will result from the Corrective Action Plan should be in place by July 31, 2002. This date is relatively firmly in place as a goal, as TSTC Waco is undergoing a self-study for the purposes of re-accreditation by the Southern Association of Colleges and Schools (SACS). It is a further measure of TSTC's desire to put appropriate internal controls in place that the SACS self-study committee is also monitoring the production of policies and procedures committed to in the Corrective Action Plan.

Conclusion

TSTC Waco is committed to following up on this audit in a way that strengthens the effort of the college to build partnerships and leverage extramural funding to advance the institution. To that end, we will work closely with Mr. [REDACTED], Dr. Teles and Dr. Salinger to implement the Corrective Action Plan as quickly and efficiently as possible.

[REDACTED]

July 10, 2002

[REDACTED]

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Re: Audit of Texas State Technical College Waco NSF Award DUE 9553716

Dear [REDACTED]

Enclosed is TSTC Waco's response to your request for additional comments dated June 26, 2002. As the comments indicate, at the time the MASTER project was active (September 1995 - August 1999), TSTC Waco did not have an administrative Office of Sponsored Programs. Monitoring for compliance with relevant OMB circulars and other guidelines was left to individual project directors and administrators, and policy regarding the procedures related to grant management at TSTC Waco was not fully developed.

Since that time, the External Resource Development Office has been created within the Office of the President, providing pre-award -and post-award oversight, compliance monitoring and support. In addition, existing policy has been revised and new policy drafted to address compliance with OMB circulars as well as the requirements of various federal funding agencies.

TSTC Waco is eager to work in any way with the National Science Foundation to complete the audit process. NSF program directors Elizabeth Teles and Gerhard Salinger have been helpful in these efforts, as have personnel from Leon Snead & Company. Please contact me if additional information or documentation is necessary.

Yours sincerely,

[REDACTED]

Comments to Second Request for Information in Independent Auditors' Report
Conducted for NSF Award DUE 9553716

Introduction

Dates of Award: 9/1/95 to 8/31/99

Audit Period: 9/1/95 to 8/31/99

Texas State Technical College Waco received a second request for comment related to the audit being conducted by Leon Snead & Company, P.C. on July 1, 2002. Since the audit began, TSTC [REDACTED] [REDACTED] is now the primary contact for TSTC Waco regarding the final outcome of the audit. [REDACTED]

Response to Additional Compliance Finding in Letter from [REDACTED] Dated June 26, 2002

Letter: "TSTC was not in compliance with the semi-annual certification requirements. OMB Circular A-21, Subpart J, section 8 (c), 2 (e) requires that after the-fact activity reports for professorial and professional staff be prepared each academic term, but no less than every six months. Certifications of faculty time and effort on projects funded by Federal grants were not conducted at the required frequency" (Leon Snead & Company, P.C. / Letter from [REDACTED] /Page 1) .

TSTC Response: This finding is accurate. At the time the MASTER grant was conducted, the Office of External Resource Development did not exist, nor did any equivalent of an office of sponsored programs at the college. That has been remedied, with the Office of External Resource Development now correctly structured to provide the requisite oversight and monitoring for such compliance details. Campus Operating Procedures have been drafted to formalize such compliance monitoring in campus policy and procedures. These policies are currently under final review. After they are formally approved by the TSTC Systems office, a full review of existing grants will be conducted with time and effort reports filed at the end of each academic semester for each active grant; that work will take place in the Office of External Resource Development, which is an arm of the Office of the President at TSTC Waco.

Response to Additional Internal Control Finding in Letter from [REDACTED] Dated June 26, 2002

Letter. "TSTC reimbursed August Technical College (ATC) for undocumented expenses. OMB Circular A-110, section.21 (b) 2 requires that recipients maintain records that identify adequately the source and application of funds for federally-

sponsored activities. TSTC did not require supporting documentation for expenses claimed by ATC as being grant related. Subsequent fieldwork by the auditor indicated that the expenses were reasonable and fully allowable. The failure to document grant related expenses could result in the revocation of the award and/or repayment of funds to NSF."

TSTC Response: As mentioned above, at the time the MASTER project was underway, TSTC Waco did not have the equivalent of an office of sponsored programs to provide monitoring for compliance with relevant OMB circulars. This office has since been corrected, with final approval on campus operating procedures to formalize such processes underway at this writing. All new subawards will be monitored, with invoicing requirements designed to maintain compliance with OMB Circular A-110 as described above. Records of such compliance, along with copies of requisitions to pay invoices and requirements provided to each sub-contracted agency or organization, will be kept in the Office of External Resource Development at TSTC Waco.

It should be noted that at the outset of each budget year, Memoranda of Understanding were constructed for each sub-contracted agency or organization, including ATC. These memoranda (sample copy attached) defined the sub-contracted organization's primary and supporting responsibilities, along with descriptions of total contract amount and allowable costs. These were appropriately established at the outset, but as the audit finding suggests, no documentation of compliance was required at the time of invoicing by the sub-contracted agency. The chief error—the absence of an office tasked to monitor for OMB circular and NSF requirement compliance—was in the follow-up to these MOA's rather than in the intent of the grant project staff or TSTC administration. It is TSTC's belief that this has been remedied in the time since MASTER was active.

Conclusions

The "Corrective Action Planned" defined in the first audit response document still stands. The Office of External Resource Development is at work implementing internal controls and compliance policies and processes at the direction of senior campus administration. Anticipated completion of new policies to establish these processes and policies formally remains July 31, 2002. When these policies receive final systems approval, a complete review of all existing grant projects for compliance with all OMB circulars will be conducted, and the new policies will be formally implemented in all new grant proposals. TSTC Waco remains committed to complete this audit in a way that strengthens the college's capacity to seek and manage extramural funding in the most efficient and accountable manner possible. To that end, we are prepared to work as closely as needed with officials at Leon Snead, the NSF, and any other federal agency from whom funds are sought.

HOW TO CONTACT
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